

# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

## Legislative Fiscal Note

**BILL NUMBER:** House Bill 944 (Second Edition)

**SHORT TITLE:** Opportunity Scholarship Act.

**SPONSOR(S):** Representatives Bryan, B. Brown, Brandon, and Hanes

<b>FISCAL IMPACT</b>					
(\$ in millions)					
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> No Estimate Available					
State Impact	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
General Fund Revenues:	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0
General Fund Expenditures:	(2.1) to (2.1)	5.8 to 2.5	12.9 to 2.5	3.4 to 2.0	2.9 to 2.2
State Positions:	2.0 to 2.0	2.0 to 2.0	2.0 to 2.0	2.0 to 2.0	2.0 to 2.0
<b>NET STATE IMPACT</b>	<b>\$2.1 to \$2.1</b>	<b>(\$5.8) to (\$2.5)</b>	<b>(\$12.9) to (\$2.5)</b>	<b>(\$3.4) to (\$2.0)</b>	<b>(\$2.9) to (\$2.2)</b>
Local Impact*					
Revenues:	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0
Expenditures:	0.0 to 0.0	(4.8) to (4.8)	(14.1) to (15.8)	(13.8) to (19.4)	(13.6) to (19.3)
<b>NET LOCAL IMPACT</b>	<b>\$0.0 to \$0.0</b>	<b>\$4.8 to \$4.8</b>	<b>\$14.1 to \$15.8</b>	<b>\$13.8 to \$19.4</b>	<b>\$13.6 to \$19.3</b>

\*See description of LEA Impact on page 10 for additional description.

**PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:**  
 State Education Assistance Authority, North Carolina Department of Public Instruction, Local Public Schools, Department of Administration's Division of Nonpublic Education

**EFFECTIVE DATE:** Effective when it becomes law and applies beginning with the 2013-14 school year

**TECHNICAL CONSIDERATIONS:**  
 Yes - See Technical Considerations Section

**BILL SUMMARY:**

**Overview**

The bill creates the Opportunity Scholarship Grants program (“the Program”). The Program provides scholarships to eligible students who attend private schools in grades K-12 where tuition is charged (a “private school”). Scholarships are funded by a State appropriation, and the Program will be administered by the State Education Assistance Authority (“the Authority”).

### **Scholarship Eligibility**

In order to be eligible, students requesting a scholarship for the 2013-14 school year must be from families whose annual income is at or below 185% of the federal poverty guidelines. For subsequent school years, the students must be from a family whose annual income is at or below 246.05% of the federal poverty guidelines (185% times 133%).<sup>1</sup>

### **Income Eligibility for Opportunity Scholarships**

<b>Persons in family</b>	<b>Poverty guideline</b>	<b>FY 13-14 Eligibility (185% of poverty)</b>	<b>Post-FY 13-14 Eligibility (246% of poverty)</b>
2	\$15,510	<b>\$28,694</b>	<b>\$38,162</b>
3	\$19,530	<b>\$36,131</b>	<b>\$48,054</b>
4	\$23,550	<b>\$43,568</b>	<b>\$57,945</b>
5	\$27,570	<b>\$51,005</b>	<b>\$67,836</b>
6	\$31,590	<b>\$58,442</b>	<b>\$77,727</b>
7	\$35,610	<b>\$65,879</b>	<b>\$87,618</b>
8	\$39,630	<b>\$73,316</b>	<b>\$97,510</b>

For the 2013-14 school year, eligible students must have been a full-time student who attended a public school during the spring 2013 semester.

For all future years, students must meet one of the following criteria:

- Spent at least the previous semester in a North Carolina public school;
- Received a scholarship during the previous school year;
- Is entering either kindergarten or first grade;
- Is a child in foster care; or
- Has been adopted within the past year.

Students receiving scholarships would be allowed to transfer to a different private school and retain eligibility.

Eligible students could begin receiving scholarships in the fall 2013 semester of the 2013-14 school year.

### **The Scholarships**

For students qualifying for free or reduced price lunch (185% of poverty), the maximum allowable scholarship is the lesser of \$4,200, or the required tuition and fees for the private school. For eligible students who do not qualify for free or reduced price lunch, the maximum allowable scholarship is the lesser of \$4,200, or 90% of the required tuition and fees for the private school.

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<sup>1</sup> The federal poverty guidelines are issued each year in the *Federal Register* by the federal Department of Health and Human Services. The guidelines are used for administrative purposes — for instance, determining financial eligibility for certain federal programs. The *Federal Register* notice of the 2013 poverty guidelines is available here: <http://aspe.hhs.gov/poverty/13poverty.cfm>.

Scholarship grants can only be used for payment of tuition and fees for books, transportation, equipment, or other items required by the private school.

### **Requirements of the Authority**

In administering the Program, the Authority is required to make scholarship applications available to students no later than August 1, 2013, and no later than February 1 of each subsequent year, with information about the scholarship available on the Authority's website.

Scholarships shall be awarded to eligible students according to the following criteria:

- First priority is given to students who received a scholarship during the previous school year if those students have applied by March 1;
- At least 50% of available funds for new scholarships shall provide scholarships to students residing in households whose annual income is at or below 185% of the federal poverty level;
- No more than 35% of the available funds for new scholarships shall provide scholarships to students entering kindergarten or first grade; and
- Remaining funds shall be awarded in the order in which the applications are received.

In order to verify student eligibility, The Authority shall select and verify a random sample of at least 6% of applications each year. The Authority shall revoke the award of the scholarship grant to students from households that fail to cooperate with verification efforts.

This bill will require the Authority to report to the Department of Public Instruction ("DPI") by August 1 of each year with the following information:

- The number of students who have received scholarships through a scholarship-funding organization and who were enrolled the prior semester in an LEA or charter school; and
- The LEA or charter school that those students had previously attended.

For FY 2013-14, this report must be made no later than October 15, 2013.

The Authority is required to report to the Joint Legislative Education Oversight Committee by March 1 of each year with the following information:

- Total number, grade level, race, ethnicity, and sex of students participating in the Program;
- Amount of scholarship funding awarded;
- The number of students who have received scholarships who were enrolled the prior semester in an LEA or charter school and the LEA or charter school that those students had previously attended;
- Private schools in which scholarship recipients are enrolled, including numbers of scholarship students at each private school; and
- A list of private schools that have lost their eligibility to participate in the Program.

The Authority is required to report to DPI and the Joint Legislative Education Oversight Committee by December 1 of each year, beginning December 1, 2017, on the learning gains of students receiving scholarships, as determined by an independent research organization selected during the 2016-17 school year. To the extent possible, the learning gains of scholarship students

should be compared to the learning gains of public school students with similar socioeconomic backgrounds.

The Authority is permitted to retain up to 1% of appropriated amounts per year for associated administrative costs (see Technical Considerations section).

Section 4 of the bill modifies G.S. 115-204 to allow the Authority to administer the awarding of scholarship grants.

### **Requirements of the Department of Public Instruction**

This bill requires DPI to adjust the allotments of LEAs based on the number of students awarded a scholarship grant who attended a public school during the prior semester, as determined per the Authority's August 1 report to DPI.

### **Requirements of the Division of Nonpublic Education**

On June 1 of each year, the Department of Administration's Division of Nonpublic Education ("the Division") shall provide the Authority with a list of all private schools meeting the requirements of this Program. The Division must notify the Authority within five days if any private schools are determined to have lost their eligibility.

The Division is also required to provide information about the Program to all qualified public schools on an annual basis.

### **Requirements of Private Schools**

All private schools accepting scholarship students must:

- Provide the Authority with documentation of the tuition and fees charged to the student;
- Conduct a criminal background check for the staff member with the highest decision-making authority
- Provide annual written progress reports to parents of scholarship students;
- Submit to the Authority the scores of scholarship students on any nationally standardized achievement tests by July 15 of each year;
- Provide the Authority with the graduation rate of scholarship students; and
- Contract with an independent certified accountant to perform a financial review if the school receives more than \$300,000 in scholarships from this bill. The first financial review would not be required until the 2014-2015 school year.

Private schools may not require any additional fees based on the status of the student as a scholarship grant recipient.

Private schools enrolling more than 25 scholarship students shall report to the Authority on the aggregate standardized test performance of eligible students.

Private schools failing to meet the requirements of the Act will lose their eligibility to participate in the Program. Private schools that have lost eligibility may appeal for reconsideration of eligibility after one year.

### **Requirements of the Joint Legislative Education Oversight Committee**

The Joint Legislative Education Oversight Committee shall review the Authority report on the learning gains of students receiving donation scholarships and make ongoing recommendations to the General Assembly regarding improving administration and accountability for nonpublic school accepting scholarship students.

### **Tuition Payment Process**

In order to remit payment on behalf of scholarship students, the Authority must remit, at least twice per year, a scholarship payment certificate to the private school for endorsement by at least one of the student's parents or guardians. The parent or guardian would then restrictively endorse the scholarship award to the private school for deposit into the account of the private school.

### **Conforming Changes**

Sections 3 and 4 of the bill make conforming changes regarding accreditation of child care programs (G.S. 110-86(2)) and nonpublic schools (G.S. 115C-555) to delete references to the Southern Association of Colleges and Schools and replace with “a national or regional accrediting agency.

### **Appropriation**

In order to fund the scholarships, Section 6 of this bill would appropriate \$10 million in FY 2013-14 and \$40 million in FY 2014-15. This section states the General Assembly’s intent to appropriate \$50 million in recurring funds beginning FY 2015-16. This section also states the General Assembly’s intent to appropriate funds to public schools for assistance to at-risk students and to community organizations serving the educational needs of at-risk students still enrolled in public schools beginning in FY 2014-15 in an amount equal to the cost savings created by the award of opportunity scholarship grants. This section only becomes effective if authorized by the Current Operations and Capital Improvements Appropriations Act of 2013.

### **ASSUMPTIONS AND METHODOLOGY:**

Estimating the fiscal impact of this bill requires estimates for the following variables:

1. Elasticity of demand for private education;
2. Average scholarship size;
3. Projected average private school tuition costs in North Carolina;
4. Projected enrollment at North Carolina’s private schools, absent the Program;
5. Projected expenditures (State and local) per student in North Carolina’s public schools;
6. Estimate of the number of students (public and private) meeting the Program’s income thresholds;
7. Private school demand for scholarships; and
8. Turnover rate of scholarship students.

#### *1. Elasticity of Demand for Private Education*

The elasticity of demand for private education versus public education answers the question: as the price for private schools goes down, how many students would be expected to leave public schools and enter private schools?

This analysis assumes an elasticity of demand for private education ranging from 0.27 to 0.60. A review of the relevant economic literature indicates a range of 0.27 to 0.48 for the relevant population considered by this bill.<sup>2,3,4</sup> An elasticity of 0.10 means that for every 10% decrease in the cost of private education, one would expect a 1% increase in the number of children attending private schools.

This analysis uses a high-range estimate of elasticity (0.60) that is outside the elasticities estimated by the literature for two reasons. First, there is a great deal of uncertainty in the literature, so a wide range of elasticities is warranted. Second, the paper from Dynarski, Gruber and Li examined elasticities by income level, finding that elasticity was higher for lower-income families. Higher-income families have greater ability to locate in desirable school districts, while choices in lower-income families might be more driven by cost concerns. Because eligibility for Opportunity Scholarships is limited to families with incomes below 246.05% of poverty, it is likely that the elasticity of demand for this population will be higher than the elasticity of demand for all families.

## 2. Average Scholarship Size

Two different average scholarship sizes are utilized in this analysis.

For the purposes of determining how many students would be expected to leave public schools and enter private schools, the maximum scholarship amount of \$4,200 is used. That is because when considering the range of private schools available, scholarship awardees could potentially reduce their private school costs by as much as \$4,200

For the purposes of calculating the fiscal impact of actual scholarships issued, the estimated average scholarship size is \$3,990. According to data from Florida's Tax Credit Scholarship Program, average award was approximately 95% of the maximum amount under that program. As a result, this analysis assumes that the average scholarship size of issued scholarships will be 95% of the maximum scholarship amount of \$4,200.

## 3. Estimating Average Private School Tuition Costs in North Carolina

There are no organizations that comprehensively track current tuition prices in North Carolina. The most comprehensive source for national data appears to be the US Department of Education's National Center for Education Statistics.<sup>5</sup> Their most recent data from the 2007-

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<sup>2</sup> Dynarski, Susan, Jonathan Gruber, and Danielle Li, "Cheaper by the Dozen: Using Sibling Discounts at Catholic Schools to Estimate the Price Elasticity of Private School Attendance," NBER Working Paper No. 15461, October 2009.

<sup>3</sup> David M. Brasington, "School Choice and the Flight to Private Schools: To What Extent Are Public and Private Schools Substitutes?" *Departmental Working Papers* 2006-04, Department of Economics, Louisiana State University.

<sup>4</sup> Barry Chiswick and Stella Koutroumanes, "An Econometric Analysis of the Demand for Private Schooling," *Research in Labor Economics*, 15, pp. 209-237, 1996.

<sup>5</sup> National Center for Education Statistics, *Digest of Education Statistics: 2009*, Table 59, March 2010. The appropriate table was found at: [http://nces.ed.gov/programs/digest/d09/tables/dt09\\_059.asp](http://nces.ed.gov/programs/digest/d09/tables/dt09_059.asp).

08 school year indicates that private school tuitions across the country averaged \$8,549 per year.

This analysis estimates that average private school tuition is \$7,694 for the 2013-14 school year. Across the country, the average tuition charged in private schools in the 2007-08 school year was \$8,549. Given the economic downturn, it is unlikely that private school tuitions have risen significantly since the 2007-08 school year. This number is then adjusted to account for North Carolina's below average cost of living. Analysis from the South Carolina Department of Commerce indicates that North Carolina's cost of living is approximately 90% of the national average.<sup>6</sup> Therefore, to estimate the private school tuition in North Carolina for the 2013-14 school year, this analysis multiplies \$8,549 by 90%. To estimate how tuitions will increase in future years, this analysis utilizes forecasted inflation numbers for Salaries & Wages from Moody's economy.com.<sup>7</sup>

#### 4. Projected Enrollment at North Carolina's Private Schools

This analysis assumes that – absent the Program proposed by this bill – private school enrollments will grow at a rate of 0.5% per year based on the actual enrollments over the last ten years. The North Carolina Division of Non-Public Education does not project enrollment at North Carolina's private schools. This analysis projects private school enrollment based on the historic growth rate in private school enrollment from 2001-02 to 2011-12. Over this period, private school enrollment in North Carolina has grown at an average rate of 0.5% per year.<sup>8</sup>

#### 5. Projected Expenditures per Student in North Carolina's Public Schools

This analysis assumes State expenditures per student will equal \$4,871 for FY 2013-14. For 2012-13, the per-student appropriation for charter schools was \$4,781 per student.<sup>9</sup> An additional \$42 per student is added to account for appropriations for Limited English Proficiency.

While per-student appropriations have increased at an average annual rate of 2.4% since 1997-98, given the current budget outlook, it is unlikely that the State will experience similar increases in per student funding over the time period covered by this fiscal analysis. As such, this analysis assumes that expenditures per student in North Carolina public schools will increase at an average rate of 1% per year over the next five fiscal years.

State average local expenditure per child for operational expenses is \$1,917. Per the reasons above, this number is also anticipated to grow at an average annual rate of 1% over the period covered by this fiscal analysis.

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<sup>6</sup> Wang, Masoudie, and Gunnlaugsson, "Annual Cost of Living Index Applied to South Carolina Sub-State Areas," South Carolina Department of Commerce – Division of Research, p. 3, January 2009. As found at:

[http://greenwoodpartnershipalliance.com/site/wp-content/themes/golden\\_essence\\_261/images/pdf/Cost%20of%20Living%20SCDOC2009.pdf](http://greenwoodpartnershipalliance.com/site/wp-content/themes/golden_essence_261/images/pdf/Cost%20of%20Living%20SCDOC2009.pdf).

<sup>7</sup> March 2012 projections found at: <http://www.economy.com/default.asp>.

<sup>8</sup> Private School Statewide Statistical History as found at: <http://www.ncdnpe.org/documents/aaa104a.pdf>.

<sup>9</sup> The per student appropriation for charter schools does not include appropriations for Children with Disabilities or Limited English Proficiency.

6. Number of Public School Children Meeting Income Threshold

Under normal circumstances, an elasticity of 0.50 would mean that for every 10% decrease in the cost of private education, you would expect a 5% increase in the number of children attending private schools. This relationship, however, assumes that the lower cost of private schools would be available to all public school students. Because of the income thresholds set forth in this bill, only a certain subset of public school students (those from families with an income below 185% of the federal poverty level in FY 2013-14, 246% in subsequent years) will be able to take advantage of the tax credit.

As a result of the income thresholds, it is necessary to discount the expected increase in private school enrollment. Consider the above example, where elasticity is still 0.50, but now only 50% of public school children are eligible for the tax credit. Under this situation, a 10% decrease in the cost of private education would be associated with a 2.5% increase in the number of children attending private schools. The new equation is as follows:

$$\% \text{ increase in private school enrollment} = \frac{\% \text{ change in private school costs}}{\text{times elasticity}} \times \text{times \% of children eligible for the tax credit}$$

Utilizing data from the IPUMS-USA database, we estimate that approximately 43% of public school students meet the family income eligibility requirement for FY 2013-14, increasing to 56% of public school students in subsequent years.<sup>10</sup> As such, the elasticity is discounted by 43% to 56% when estimating increases in private school enrollment, depending on the year.

7. Private School Demand for Scholarships

According to data from the IPUMS-USA database, approximately 37% of private school students meet the initial family income eligibility requirement in FY 2014-15 and beyond.<sup>11</sup> This analysis assumes that 90% of all eligible private school students would apply for a scholarship. The reason this number is below 100% is that a small minority of eligible students might not be aware of the Program, or might oppose receiving government support for philosophical reasons.

In addition, private school students who are children in foster care, or who have been adopted in the past year would also be eligible for scholarships if they also meet the income criteria.

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<sup>10</sup> Steven Ruggles, J. Trent Alexander, Katie Genadek, Ronald Goeken, Matthew B. Schroeder, and Matthew Sobek. Integrated Public Use Microdata Series: Version 5.0 [Machine-readable database]. Minneapolis: University of Minnesota, 2010.

<sup>11</sup> Steven Ruggles, J. Trent Alexander, Katie Genadek, Ronald Goeken, Matthew B. Schroeder, and Matthew Sobek. Integrated Public Use Microdata Series: Version 5.0 [Machine-readable database]. Minneapolis: University of Minnesota, 2010.

The US Department of Health and Human Services' Administration for Children and Families reports that there have been an average of 9,380 school-aged children in foster care each year, and an average of 1,622 school age children adopted in each year.<sup>12</sup>

There is no data to indicate the percentage of foster children or recent adoptees who attend private school. This analysis assumes that recently adopted children go to private schools at the same rate as the general public. As private school students account for approximately 6.1% of the school-going population in North Carolina, the above numbers for adoptees are multiplied by 6.1% to determine the potential population of students in private schools in North Carolina. The number for children in foster care is multiplied by an additional 10% to account for the assumption that children in foster care have a lower private school-going rate for the general population. These numbers are multiplied by 83% to prevent double-counting of students in grades K-1 (approximately 83% of private school students are in grades 2-12).

#### 8. Turnover Rate for Scholarship Students

This analysis requires examining how cohorts of each type of scholarship student advance through school from year-to-year. As a result, one must estimate how many scholarship students will continue receiving their scholarship in subsequent years, and how many will choose not to participate in the Program again.

This analysis assumes that those students who are incentivized by the Program scholarship to transfer from a public school to a private school will re-apply 85% of the time, while those who would have attended a private school even in the absence of this Program will re-apply 90% of the time. Unfortunately, there is no existing data from which to form these estimates. However, it seems likely that those who would have attended a private school even in the absence of the Program are likely to persist at a higher rate than those who only chose to attend a private school as a result of the scholarship.

### **Estimated Program Fiscal Impact**

#### ***State Impact – Scholarships & Changes in Public School Expenditures***

Applying all of the above estimated variables allows us to produce an estimate of potential annualized costs/savings to State and local governments.

In general the State saves money for each public school student who transfers to a private school as a result of receiving the Program scholarship. The State saves the difference between the average public school expenditure per student (\$4,871 in FY 2013-14) and the scholarship amount (\$3,990), for total savings of \$881 per student for each student who uses the scholarship to transfer from a public school to a private school.

In contrast, the State loses money for each scholarship student who would have attended a private school in the absence of the Program. Each student who would have attended a private school in the absence of the Program costs the State \$3,990 per student.

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<sup>12</sup> U.S. Department of Health and Human Services Administration for Children and Families Administration on Children, Youth and Families Children's Bureau, "Child Welfare Outcomes 2007-2010: Report to Congress." September 7, 2012, as found at: <http://cwoutcomes.acf.hhs.gov/data/overview>.

In determining the distribution of scholarships in a given year, one must look at the relative demand for scholarships between two different types of students:

1. Students who are incentivized by the Program to transfer from a public school to a private school (demand estimated based on elasticity calculations); and
2. Students who would have attended a private school in the absence of the Program.

Because eligible scholarship students can carry their scholarship forward to the next year, this analysis examines how cohorts of each type of scholarship student advance through school from year-to-year. As explained above, the different types of students are expected to persist in the program at differing rates. Once it has been determined how many students will be carrying their scholarship forward to the subsequent fiscal year, remaining available funds are distributed based on the residual relative demand for scholarships between the three student types listed above.

It is important to note the Program limitation that no more than 35% of the available funds for new scholarships shall provide scholarships to students entering kindergarten or first grade. In FY 2014-15 and subsequent fiscal years, the model must be manually adjusted to account for this feature of the Program. Under the “High-Elasticity Scenario” below, the number of scholarships in grades K-1 are reduced and re-distributed to “new public school awardees” in grades 2-12 based on relative demand. Under the “Low-Elasticity Scenario” below, two adjustments are made. First, the number of scholarships in grades K-1 are reduced and re-distributed to “new public school awardees” in grades 2-12 based on relative demand, just as in the “High-Elasticity Scenario.” However, in the “Low-Elasticity Scenario,” there is not enough residual demand to re-distribute the required number of K-1 scholarships to students in grades 2-12. As a result, the total number of new scholarships must be reduced in order to meet the requirement that no more than 35% of the available funds for new scholarships shall provide scholarships to students entering kindergarten or first grade. Under the “Low-Elasticity Scenario” approximately \$2.6 million would be go unused (revert) in FY 14-15, increasing to approximately \$12 million in unused funds in all subsequent years.

This analysis assumes that the Authority will create two positions from the amounts they are permitted to retain for associated administrative costs.

### ***LEA Impact***

LEAs experience a decrease in local expenditure requirements related to each student who is incentivized by the Program to transfer from a public school to a private school. There is no LEA fiscal impact related to those students who would have attended a private school in the absence of the Program.

It is important to note that LEAs will not necessarily decrease expenditures or provide tax relief to citizens as enrollments decrease in their public schools. The amounts shown as “LEA Operational Savings” indicate the amount by which LEAs could *potentially* decrease their local expenditures, and still provide the same per student local support for public schools as is currently provided.

### ***Fiscal Impact Summary***

The tables below summarize the total fiscal impact of the Program, utilizing the data described above.

## Estimated Fiscal Impact - Opportunity Scholarship Grants High-Elasticity Scenario

	2013-14	2014-15	2015-16	2016-17	2017-18
Appropriation	(\$10,000,000)	(\$40,000,000)	(\$50,000,000)	(\$50,000,000)	(\$50,000,000)
Admin Costs	(\$100,000)	(\$400,000)	(\$500,000)	(\$500,000)	(\$500,000)
Existing Private School Awardees	0	0	1,657	2,317	2,454
Existing Public School Awardees	0	2,109	6,871	8,358	8,226
Available Dollars for New Scholarships	\$9,900,000	\$31,185,090	\$15,473,280	\$6,906,750	\$6,886,800
Cost of Pvt Education	\$7,694	\$7,793	\$7,901	\$8,008	\$8,102
Maximum Scholarship Amount	\$4,200	\$4,200	\$4,200	\$4,200	\$4,200
Average Scholarship Granted	\$3,990	\$3,990	\$3,990	\$3,990	\$3,990
Tuition Discount	55%	54%	53%	52%	52%
Elasticity of Demand	0.60	0.60	0.60	0.60	0.60
Percent of Public School Students Eligible	39%	56%	56%	56%	56%
% Change in Pvt. School Demand	12.92%	18.11%	17.86%	17.62%	17.42%
Expected Pvt. School Population (absent this bill)	98,000	98,490	98,982	99,477	99,975
Existing Pvt. School Population Eligible for New Scholarships	0	17,416	17,503	17,591	17,679
Private School Demand for New Scholarships	0	5,800	4,955	5,327	5,645
Public School Demand for New Scholarships	6,332	15,725	10,807	9,173	9,188
Total Demand for New Scholarships	6,332	21,525	15,762	14,500	14,833
Value of New Scholarships Demanded	\$25,265,241	\$85,884,549	\$62,890,618	\$57,853,298	\$59,182,430
New Scholarships Granted	2,481	7,815	3,878	1,731	1,726
Value of New Scholarships Issued	\$9,899,190	\$31,181,850	\$15,473,220	\$6,906,690	\$6,886,740
% of New Scholarships to Pvt School Students	0%	24%	24%	24%	24%
New Private School Awardees	0	1,840	916	411	411
New Public School Awardees	2,481	5,975	2,962	1,320	1,315
Avg. Public School Exp. Per Child	\$4,871	\$4,920	\$4,969	\$5,019	\$5,069
<b>Reduced Public School Expenditures</b>	\$12,085,436	\$37,481,600	\$47,527,017	\$48,012,372	\$47,835,994
<b>Net Fiscal Impact on State</b>	<b>\$2,085,436</b>	<b>(\$2,518,400)</b>	<b>(\$2,472,983)</b>	<b>(\$1,987,628)</b>	<b>(\$2,164,006)</b>
LEA Exp. Per Eligible Student	\$1,917	\$1,936	\$1,956	\$1,975	\$1,995
LEA Operational Savings	\$0	\$4,803,638	\$15,808,518	\$19,421,031	\$19,306,041
<b>Net Fiscal Impact on LEAs</b>	<b>\$0</b>	<b>\$4,803,638</b>	<b>\$15,808,518</b>	<b>\$19,421,031</b>	<b>\$19,306,041</b>

Family Income as % of Poverty	185%	246%	246%	246%	246%
Private School Population Meeting Income Requirement	24%	37%	37%	37%	37%
Public School Population Meeting Income Requirement	43%	56%	56%	56%	56%
Private School Turnover	10%				
Public School Turnover	15%				
FY 2012-13 Dollars per ADM	\$4,823				

% of NEW scholarships K-1	8.8%	35.0%	35.0%	35.0%	35.0%
% of NEW scholarships 185% or less	100.0%	74.0%	74.0%	74.0%	73.9%

## High-Elasticity Scenario Cohort Analysis

### Private School Awardees

	<u>K</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	
13-14	0	0	0	0	0	0	0	0	0	0	0	0	0	0

14-15 Demand	2,986	2,756	5	5	5	5	5	5	5	5	5	5	5	5,800
14-15 Legacy		0	0	0	0	0	0	0	0	0	0	0	0	0
14-15 Unmet Demand	2,986	2,756	5	5	5	5	5	5	5	5	5	5	5	5,800
14-15 New	946	873	2	2	2	2	2	2	2	2	2	2	2	1,840
<b>14-15 Total</b>	<b>946</b>	<b>873</b>	<b>2</b>	<b>1,840</b>										

15-16 Demand	3,001	2,770	5	5	5	5	5	5	5	5	5	5	5	5,829
15-16 Legacy		852	785	2	2	2	2	2	2	2	2	2	2	1,657
15-16 Unmet Demand	3,001	1,918	3	3	3	3	3	3	3	3	3	3	3	4,955
15-16 New	553	354	1	1	1	1	1	1	1	1	1	1	1	916
<b>15-16 Total</b>	<b>553</b>	<b>1,206</b>	<b>786</b>	<b>3</b>	<b>2,573</b>									

16-17 Demand	3,016	2,784	5	5	5	5	5	5	5	5	5	5	5	5,858
16-17 Legacy		498	1,085	707	3	3	3	3	3	3	3	3	3	2,317
16-17 Unmet Demand	3,016	2,286	2	2	2	2	2	2	2	2	2	2	2	5,327
16-17 New	232	176	0	0	0	0	0	0	0	0	0	0	0	411
<b>16-17 Total</b>	<b>232</b>	<b>674</b>	<b>1,085</b>	<b>707</b>	<b>3</b>	<b>2,728</b>								

17-18 Demand	3,031	2,798	5	5	5	5	5	5	5	5	5	5	5	5,887
17-18 Legacy		209	607	977	637	3	3	3	3	3	3	3	3	2,454
17-18 Unmet Demand	3,031	2,589	2	2	2	2	2	2	2	2	2	2	2	5,645
17-18 New	220	188	0	0	0	0	0	0	0	0	0	0	0	411
<b>17-18 Total</b>	<b>220</b>	<b>397</b>	<b>607</b>	<b>977</b>	<b>637</b>	<b>3</b>	<b>2,865</b>							

### Public School Awardees

	<u>K</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	
13-14	0	217	208	200	212	213	216	213	209	230	203	187	173	2,481

14-15 Demand	1,470	1,434	1,374	1,319	1,400	1,404	1,422	1,405	1,376	1,516	1,339	1,231	1,143	17,834
14-15 Legacy		12	197	189	182	193	193	196	193	190	208	185	171	2,109
14-15 Unmet Demand	1,470	1,421	1,177	1,130	1,218	1,212	1,229	1,210	1,183	1,327	1,131	1,046	972	15,726
14-15 New	466	450	464	446	480	477	484	477	466	522	447	413	384	5,975
<b>14-15 Total</b>	<b>466</b>	<b>462</b>	<b>661</b>	<b>635</b>	<b>662</b>	<b>670</b>	<b>678</b>	<b>672</b>	<b>660</b>	<b>712</b>	<b>654</b>	<b>597</b>	<b>554</b>	<b>8,084</b>

15-16 Demand	1,457	1,421	1,362	1,308	1,388	1,392	1,410	1,393	1,364	1,503	1,327	1,220	1,133	17,678
15-16 Legacy		435	432	601	579	602	609	615	611	600	644	595	547	6,871
15-16 Unmet Demand	1,457	986	930	707	809	790	801	778	753	903	683	625	586	10,807
15-16 New	269	182	271	214	242	237	240	234	227	268	209	191	179	2,962
<b>15-16 Total</b>	<b>269</b>	<b>617</b>	<b>703</b>	<b>815</b>	<b>821</b>	<b>839</b>	<b>849</b>	<b>849</b>	<b>838</b>	<b>868</b>	<b>853</b>	<b>786</b>	<b>726</b>	<b>9,833</b>

16-17 Demand	1,445	1,409	1,351	1,297	1,377	1,380	1,398	1,381	1,353	1,490	1,316	1,210	1,124	17,531
16-17 Legacy		280	576	649	744	749	765	773	773	764	789	777	720	8,358
16-17 Unmet Demand	1,445	1,130	775	648	632	631	633	608	579	727	527	433	404	9,173
16-17 New	111	86	123	107	107	107	108	104	100	121	93	79	74	1,320
<b>16-17 Total</b>	<b>111</b>	<b>365</b>	<b>699</b>	<b>756</b>	<b>851</b>	<b>856</b>	<b>872</b>	<b>877</b>	<b>873</b>	<b>884</b>	<b>882</b>	<b>856</b>	<b>794</b>	<b>9,678</b>

17-18 Demand	1,435	1,400	1,342	1,288	1,367	1,371	1,389	1,372	1,344	1,480	1,307	1,202	1,116	17,414
17-18 Legacy		151	367	650	699	780	784	798	802	799	808	806	784	8,227
17-18 Unmet Demand	1,435	1,249	975	638	669	591	605	575	541	682	499	395	332	9,187
17-18 New	104	91	147	106	112	103	105	101	96	116	91	76	66	1,315
<b>17-18 Total</b>	<b>104</b>	<b>242</b>	<b>514</b>	<b>757</b>	<b>811</b>	<b>883</b>	<b>889</b>	<b>899</b>	<b>898</b>	<b>915</b>	<b>899</b>	<b>882</b>	<b>850</b>	<b>9,542</b>

## Estimated Fiscal Impact - Opportunity Scholarship Grants Low-Elasticity Scenario

	2013-14	2014-15	2015-16	2016-17	2017-18
Appropriation	(\$10,000,000)	(\$40,000,000)	(\$50,000,000)	(\$50,000,000)	(\$50,000,000)
Admin Costs	(\$100,000)	(\$400,000)	(\$500,000)	(\$500,000)	(\$500,000)
Existing Private School Awardees	0	0	1,874	2,027	2,153
Existing Public School Awardees	0	2,109	6,113	5,942	5,799
Available Dollars for New Scholarships	\$9,900,000	\$31,185,090	\$17,631,870	\$17,703,690	\$17,771,520
Cost of Pvt Education	\$7,694	\$7,793	\$7,901	\$8,008	\$8,102
Maximum Scholarship Amount	\$4,200	\$4,200	\$4,200	\$4,200	\$4,200
Average Scholarship Granted	\$3,990	\$3,990	\$3,990	\$3,990	\$3,990
Tuition Discount	55%	54%	53%	52%	52%
Elasticity of Demand	0.27	0.27	0.27	0.27	0.27
Percent of Public School Students Eligible	39%	56%	56%	56%	56%
% Change in Pvt. School Demand	5.82%	8.15%	8.04%	7.93%	7.84%
Expected Pvt. School Population (absent this bill)	98,000	98,490	98,982	99,477	99,975
Existing Pvt. School Population Eligible for New Scholarships	0	17,416	17,503	17,591	17,679
Private School Demand for New Scholarships	0	5,800	4,837	5,608	5,666
Public School Demand for New Scholarships	2,849	5,916	1,842	1,947	2,037
Total Demand for New Scholarships	2,849	11,716	6,679	7,555	7,703
Value of New Scholarships Demanded	\$11,369,359	\$46,746,997	\$26,648,762	\$30,142,844	\$30,735,601
New Scholarships Granted	2,481	7,171	1,261	1,253	1,459
Value of New Scholarships Issued	\$9,899,190	\$28,610,416	\$5,032,506	\$4,997,699	\$5,820,901
% of New Scholarships to Pvt School Students	0%	29%	30%	30%	30%
New Private School Awardees	0	2,088	384	372	433
New Public School Awardees	2,481	5,083	877	881	1,026
Avg. Public School Exp. Per Child	\$4,871	\$4,920	\$4,969	\$5,019	\$5,069
<b>Reduced Public School Expenditures</b>	\$12,085,436	\$34,224,710	\$34,510,253	\$34,035,254	\$34,360,584
<b>Net Fiscal Impact on State</b>	<b>\$2,085,436</b>	<b>(\$5,774,480)</b>	<b>(\$12,915,073)</b>	<b>(\$3,365,382)</b>	<b>(\$2,933,425)</b>
LEA Exp. Per Eligible Student	\$1,917	\$1,936	\$1,956	\$1,975	\$1,995
LEA Operational Savings	\$0	\$4,803,638	\$14,063,266	\$13,806,411	\$13,609,893
<b>Net Fiscal Impact on LEAs</b>	<b>\$0</b>	<b>\$4,803,638</b>	<b>\$14,063,266</b>	<b>\$13,806,411</b>	<b>\$13,609,893</b>

Family Income as % of Poverty	185%	246%	246%	246%	246%
Private School Population Meeting Income Requirement	24%	37%	37%	37%	37%
Public School Population Meeting Income Requirement	43%	56%	56%	56%	56%
Private School Turnover	10%				
Public School Turnover	15%				
FY 2012-13 Dollars per ADM	\$4,823				

% of NEW scholarships K-1	8.8%	35.0%	35.0%	35.0%	35.0%
% of NEW scholarships 185% or less	100.0%	73.3%	73.2%	73.2%	73.2%

## Low-Elasticity Scenario Cohort Analysis

### Private School Awardees

	<u>K</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	
13-14	0	0	0	0	0	0	0	0	0	0	0	0	0	0

14-15 Demand	2,986	2,756	5	5	5	5	5	5	5	5	5	5	5	5,800
14-15 Legacy		0	0	0	0	0	0	0	0	0	0	0	0	0
14-15 Unmet Demand	2,986	2,756	5	5	5	5	5	5	5	5	5	5	5	5,800
14-15 New	1,066	984	4	4	4	4	4	4	4	4	4	4	4	2,088
<b>14-15 Total</b>	<b>1,066</b>	<b>984</b>	<b>4</b>	<b>2,088</b>										

15-16 Demand	3,001	2,770	5	5	5	5	5	5	5	5	5	5	5	5,829
15-16 Legacy		959	885	3	3	3	3	3	3	3	3	3	3	1,874
15-16 Unmet Demand	3,001	1,811	2	2	2	2	2	2	2	2	2	2	2	4,837
15-16 New	229	138	2	2	2	2	2	2	2	2	2	2	2	384
<b>15-16 Total</b>	<b>229</b>	<b>1,097</b>	<b>887</b>	<b>5</b>	<b>2,258</b>									

16-17 Demand	3,016	2,784	5	5	5	5	5	5	5	5	5	5	5	5,858
16-17 Legacy		206	987	798	4	4	4	4	4	4	4	4	4	2,027
16-17 Unmet Demand	3,016	2,578	1	1	1	1	1	1	1	1	1	1	1	5,608
16-17 New	196	167	1	1	1	1	1	1	1	1	1	1	1	372
<b>16-17 Total</b>	<b>196</b>	<b>373</b>	<b>988</b>	<b>799</b>	<b>5</b>	<b>2,399</b>								

17-18 Demand	3,031	2,798	5	5	5	5	5	5	5	5	5	5	5	5,887
17-18 Legacy		177	336	889	719	4	4	4	4	4	4	4	4	2,153
17-18 Unmet Demand	3,031	2,621	1	1	1	1	1	1	1	1	1	1	1	5,666
17-18 New	227	197	1	1	1	1	1	1	1	1	1	1	1	433
<b>17-18 Total</b>	<b>227</b>	<b>374</b>	<b>337</b>	<b>890</b>	<b>720</b>	<b>5</b>	<b>2,586</b>							

### Public School Awardees

	<u>K</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	
13-14	0	217	208	200	212	213	216	213	209	230	203	187	173	2,481

14-15 Demand	661	645	618	594	630	632	640	632	619	682	602	554	514	8,025
14-15 Legacy		12	197	189	182	193	193	196	193	190	208	185	171	2,109
14-15 Unmet Demand	661	633	421	404	448	439	447	437	426	493	395	369	344	5,917
14-15 New	235	225	423	406	443	438	445	436	426	485	401	373	347	5,083
<b>14-15 Total</b>	<b>235</b>	<b>237</b>	<b>620</b>	<b>595</b>	<b>625</b>	<b>630</b>	<b>638</b>	<b>632</b>	<b>619</b>	<b>675</b>	<b>609</b>	<b>558</b>	<b>518</b>	<b>7,191</b>

15-16 Demand	656	639	613	589	625	626	634	627	614	676	597	549	510	7,955
15-16 Legacy		237	238	563	543	568	573	579	574	563	610	554	511	6,113
15-16 Unmet Demand	656	403	375	25	82	58	62	48	40	113	0	0	0	1,862
15-16 New	45	29	271	41	80	64	67	58	52	102	25	23	21	877
<b>15-16 Total</b>	<b>45</b>	<b>265</b>	<b>509</b>	<b>604</b>	<b>622</b>	<b>632</b>	<b>639</b>	<b>636</b>	<b>625</b>	<b>665</b>	<b>635</b>	<b>577</b>	<b>532</b>	<b>6,990</b>

16-17 Demand	650	634	608	584	619	621	629	622	609	671	592	544	506	7,889
16-17 Legacy		76	263	470	551	567	575	581	579	569	603	577	528	5,941
16-17 Unmet Demand	650	558	345	113	68	55	54	40	30	101	0	0	0	2,014
16-17 New	41	34	228	95	71	64	64	56	49	93	31	29	27	881
<b>16-17 Total</b>	<b>41</b>	<b>110</b>	<b>491</b>	<b>566</b>	<b>623</b>	<b>630</b>	<b>639</b>	<b>637</b>	<b>628</b>	<b>662</b>	<b>635</b>	<b>606</b>	<b>555</b>	<b>6,822</b>

17-18 Demand	646	630	604	580	615	617	625	617	605	666	588	541	502	7,836
17-18 Legacy		74	133	457	520	569	575	582	581	573	602	579	554	5,799
17-18 Unmet Demand	646	556	471	123	95	48	50	35	24	93	0	0	0	2,141
17-18 New	46	40	298	105	92	66	68	59	52	94	38	35	32	1,026
<b>17-18 Total</b>	<b>46</b>	<b>114</b>	<b>431</b>	<b>562</b>	<b>612</b>	<b>635</b>	<b>643</b>	<b>642</b>	<b>633</b>	<b>667</b>	<b>640</b>	<b>614</b>	<b>587</b>	<b>6,825</b>

## **SOURCES OF DATA:**

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- David M. Brasington, "School Choice and the Flight to Private Schools: To What Extent Are Public and Private Schools Substitutes?" Departmental Working Papers 2006-04, Department of Economics, Louisiana State University
- Barry Chiswick and Stella Koutroumanes, "An Econometric Analysis of the Demand for Private Schooling," *Research in Labor Economics*, 15, pp. 209-237
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- North Carolina Division of Non-Public Education
- The Fiscal Research Division's North Carolina Individual Income Tax Model
- U.S. Department of Health and Human Services Administration for Children and Families Administration on Children, Youth and Families Children's Bureau, "Child Welfare Outcomes 2007-2010: Report to Congress." September 7, 2012
- Florida Department of Education

## **TECHNICAL CONSIDERATIONS:**

### ***Authority administrative costs***

The bill allows the Authority to retain up to 1% of appropriated amounts per year for associated administrative costs. For FY 2013-14, this equates to \$100,000. This amount is likely to be insufficient to administer the program. The bill sponsor should consider amending the language to allow the Authority to retain up to \$400,000 per year for administrative costs. This change has already been incorporated within Section 8.29.(k) of S.B. 402, Appropriations Act of 2013, if that bill were to become law.

### ***Definition of "cost savings"***

Section 6 of the bill states the General Assembly's intent to appropriate funds to public schools for assistance to at-risk students and to community organizations serving the educational needs of at-risk students still enrolled in public schools beginning in FY 2014-15 in an amount equal to the cost savings created by the award of opportunity scholarship grants. It is unclear how one would define the cost savings created by the award of opportunity scholarship grants. As a result, this language is not factored into this analysis.

***Conversion of home schools to private schools***

It is possible that some number of home schools will convert to private schools in order to qualify their students for the scholarships proposed by this bill. This analysis does not assume that any home schools will convert to private schools in order to gain scholarship eligibility. However, to the extent that home schools convert to private schools, and students of such schools receive scholarships, this analysis will underestimate the cost of this program.

**FISCAL RESEARCH DIVISION: (919) 733-4910**

**PREPARED BY:** Kristopher Nordstrom

**APPROVED BY:** Mark Trogdon, Director  
Fiscal Research Division

**DATE:** June 19, 2013



**Signed Copy Located in the NCGA Principal Clerk's Offices**